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The Role of Speculation in Heating Oil Price Changes?

Augusta, Maine – The Governor’s Office of Energy Independence and Security (OEIS) conducted its weekly heating fuel price survey on Monday, February 27, 2012 and found that the current statewide average cash price for No. 2 heating oil to be **\$3.86 per gallon**, an increase of 7 cents from last week.

“We’ve talked consistently about supply and demand as the key drivers of heating oil prices,” said OEIS Director Ken Fletcher, “but it may be time to call on Congress to hold a serious debate about the potential role of speculation in the oil markets. Some market analysts believe that financial investors are artificially driving up the cost of crude, gasoline, heating oil and other commodities, even as the economy remains sluggish and global supply appears sufficient for demand. Many commentators assert that tensions with Iran are helping to fuel concerns that gasoline could reach \$5/gallon by summer, and these fears may be instigating investors to push up prices. We know that supply and demand can vary with the global economy, geopolitical factors and weather, and we’re also aware that transportation, refining costs and competition affect prices paid for heating and transportation fuels. But, we believe it’s imperative for Congress and the Administration to fully understand the likely role of price speculation, analyze potential solutions and communicate the impacts directly to the American people.”

Using this week’s average heating oil price and converting to a common heating unit value (million Btu) the price of fuel oil is at \$27.83. This compares with an equivalent heating unit value for natural gas of \$15.70 (at \$1.57/therm); propane, \$34.93 (at \$3.19/gallon); wood pellets, \$14.30 (at \$236/ton); and cord wood, \$10.50 (at \$210/cord). OEIS has a calculator on its web site that allows consumers to estimate home heating costs and price impacts of various energy sources.

http://www.maine.gov/oeis/docs/heatcalculatorMEv3_1.xls.

As of February 27, 2012

Heating Oil	Statewide	Southwest	Central	Eastern	Western	Northern
Average	3.86	3.72	3.93	3.89	3.79	3.92
High	4.17	3.93	4.17	4.02	3.90	3.95
Low	3.62	3.62	3.80	3.76	3.64	3.85
Kerosene	4.25	4.20	4.29	4.27	4.18	4.32
Propane	3.19					

It is important to note that the price for heating oil is a statewide average and that prices in a given geographic region of the state may be considerably higher or lower than the statewide average. Within the OEIS sample, the lowest actual heating oil price of \$3.62 per gallon can be found in the Southwest region. The highest price of \$4.17 per gallon was found in the Central region. The statewide kerosene price

average is \$4.25 per gallon at this time. The statewide average for propane ***based on a use of 925 gallons a year*** is \$3.19 per gallon. The table above provides current Maine cash prices in dollars rounded to the nearest penny. On February 27, the price of WTI crude oil, a major driver of refined petroleum product prices, including heating oil, was at \$108.99 per barrel. Efficiency Maine links Maine homeowners and businesses with qualified, certified contractors who provide access to energy improvement options. For program details call 866-376-2463 or visit www.energymaine.com.